



## **CFA® SAMPLE QUESTION – LEVEL I**

## **Economics**

Q: A reserve requirement of 20% implies a money deposit expansion multiplier (potential) of:

## **CORRECT ANSWER:**

## 5 $(\mathbf{a})$

28

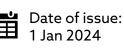
The "Potential" deposit expansion multiplier is the reciprocal of the required reserve ratio.

So in our question, If the required reserve ratio is 20% (.2), the potential deposit expansion multiplier is equal to 1 / 0.2 = 5

The actual deposit expansion multiplier is less than the potential deposit expansion multiplier for two reasons:

- Banks may not loan out all available funds (i.e. they may have excess reserves, which are reserves that exceed required reserves)
- Recipients of loans may not deposit the proceeds; they may instead decide to hold them as currency





Disclaimer: This material is produced by a voluntary study group leader. CFA Society Hong Kong makes no representations about the accuracy, reliability, completeness, or timeliness of this material. Use this material at your own risk.



**CFA Society Hong Kong Candidate Services**